October 27, 2020

Dear Partner:

The Greenlight Capital funds (the "Partnerships") returned 5.9%[1] in the third quarter compared to 8.9% for the S&P 500 index.

We have always ended our quarterly letters with a quote that may or may not have something to do with the rest of the letter. This quarter, we start with one from Marcus Aurelius:

The object of life is not to be on the side of the majority,
but to escape finding oneself in the ranks of the insane.

The coming election will settle (or attempt to settle) which side is in the majority. This may rank among the most perilous times, absent war, in modern American history. The pandemic has exposed and exacerbated deep-rooted inequities. Peaceful protests for social change by day have sometimes devolved into rioting and looting at night. As the police have been unable to keep some cities safe, protests have been met with armed opposition from vigilante militias. Violence and death have ensued. The pandemic has compounded the public safety problem by making it impractical to arrest any but the most violent offenders, as jailing creates a public health risk.

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It isn't difficult to envision this tempest exploding after the election, no matter which side wins. According to Politico, 44% of Republicans and 41% of Democrats believe there would be at least "a little" justification for violence if the other party's nominee wins the election.[2] A poll by Rasmussen Reports found that 34% of likely voters believe a civil war is likely in the next 5 years.[3] While this is probably too pessimistic, it likely reflects a rising tail risk.

At the national level, the political parties are unable to find common ground on almost anything. The winning side tells the losing side that "elections have consequences" and uses that rationale to change rules that had previously maintained political balance and stability. This dynamic has been escalating over the past few election cycles, creating dysfunction in governance. The current president acts as if he only represents the states (and people) that voted for him. The opposition threatens to retaliate should they gain control by eliminating the filibuster, adding two new states that will alter the electoral map in their favor and packing the Supreme Court with additional seats. This tit-for-tat and related social unrest create risk. The political center is collapsing.

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[1]Source: Greenlight Capital. Please refer to information contained in the disclosures at the end of the letter.
[2]https://www.politico.com/news/magazine/2020/10/01/political-violence-424157
[3]https://www.rasmussenreports.com/public_content/politics/current_events/social_issues/40_of_gop_voters_think_civil_war_likely

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The only common ground between the two parties seems to be money-printing. Over $3.3 trillion has been printed year-to-date, which represents nearly 22% of all U.S. dollars in existence at the end of 2019.[4] Unsurprisingly, gold is outperforming. Investors who have argued against gold for decades are now buying some.

As for the question of sanity, we are now in the midst of an enormous tech bubble. We prematurely identified what we thought was a bubble in early 2016. Part of our thinking at the time was that the height of the 1999-2000 bubble was a once-in-a-career experience and that investors would not repeat that level of insanity. Clearly, we were mistaken.

Four years later, there is a consensus that we are in a bubble. Barron's recently ran this on the cover:

[4]https://www.federalreserve.gov/releases/h6/current/default.htm

All the signs of a bubble are there, including:

- an IPO mania;
- extraordinary valuations and new metrics for valuation;[5]
- a huge market concentration in a single sector and a few stocks;
- a second tier of stocks that most people haven't heard of at S&P 500-type market capitalizations;
- the more fanciful and distant the narrative, it seems the better the stock performs;
- outperformance of companies suspected of fraud based on the consensus belief that there is no enforcement risk, without which crime pays;
- outsized reaction to economically irrelevant stock splits;
- increased participation of retail investors, who appear focused on the best-performing names;
- incredible trading volumes in speculative instruments like weekly call options and worthless common stock;[6] and
- a parabolic ascent toward a top.

There are many anecdotes of toppy behavior. We will share one: We recently received a job application with the email subject, "I am young, but good at investments" from a 13-year-old who purports to have quadrupled his money since February.

Some analysts and commentators are comparing this bubble to the prior one. Have the valuations reached the prior insanity's? Is the IPO mania just as large? Are the companies better today? Are they growing faster? Have the specific events that popped the last bubble happened? Are they likely to happen soon?

We believe these questions are a fool's errand. The bubbles will never be exactly the same. In 2000, the Nasdaq peaked at 5,000. Why not 4,000? Why not 10,000? Or 20,000? Would there really have been a difference? If the Nasdaq had peaked at 3,500 instead of 5,000, the losses would have been 65% instead of 80%. Had it peaked at 3,500, it would be easier to argue that this bubble has surpassed that one. Had it peaked at 20,000, it would be easier to argue that there is still a long way to go. This analysis is arbitrary. Is a bubble only dangerous when it has exceeded the prior one on every metric?

What matters in a bubble is market psychology, not valuation. Valuation is irrelevant; that's what makes it a bubble. Jeremy Grantham has done some of the best work on bubbles and by his criteria this one is a "Real McCoy." The question at hand is where are we in the

[5]Our recent favorite is price to sales ratio divided by sales growth. We have previously critiqued the so-called PEG ratio (P/E divided earnings growth). This ratio is the PEG ratio on steroids and amounts to nonsense. This goes into the category of "every behavior can find a rationalization."

[6]Take Hertz common stock, for example. Hertz traded 1 billion shares, or 6x the outstanding, in a single day a couple of weeks ago on the news that the company had obtained DIP financing. Historically, in a bankruptcy like this, the shares would be promptly delisted by the exchange to protect retail investors. However, there appears to be too much money to be made here churning extraordinary volumes of worthless securities.

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psychology of this bubble? On March 10, 2000, nobody knew that it was the top. Even by September 2000, it wasn't clear. There was no obvious event that marked the top. Only in hindsight do people try to back fit an explanation.

Bubbles tend to topple under their own weight. Everybody is in. The last short has covered. The last buyer has bought (or bought massive amounts of weekly calls). The decline starts and the psychology shifts from greed to complacency to worry to panic. Our working hypothesis, which might be disproven, is that September 2, 2020 was the top and the bubble has already popped. If so, investor sentiment is in the process of shifting from greed to complacency. We have adjusted our short book accordingly including adding a fresh bubble basket of mostly second-tier companies and recent IPOs trading at remarkable valuations.

As for the third quarter, in many ways it was more of the same. The Russell 1000 Pure Growth index advanced 15% while the Russell 1000 Pure Value index fell 1%. Year to date, the relationship is +39% vs. -23%. This remains an enormous headwind to our strategy. However, we fared better this quarter. Our longs contributed 15%, our shorts lost 12% and macro added 3%.

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Green Brick Partners (GRBK) was the primary driver of this quarter's results. The shares advanced from $11.85 to $16.10. Housing appears to be a major beneficiary from the pandemic, as low interest rates combined with an expanded preference for single-family detached housing has spurred demand. GRBK is well-positioned in secularly growing markets including Dallas, Atlanta, Colorado Springs and Vero Beach. In the second quarter, the company earned $0.66 per share, shattering consensus estimates of $0.42. The company's record backlog and strong order rate bode well for future earnings. Current consensus of $1.88 per share this year suggests EPS growth of over 60% year-over-year. We believe the shares remain deeply undervalued at 9x estimates, as business momentum continues to accelerate.

We established medium-sized new long positions in SYNNEX Corporation (SNX), ams AG (Switzerland: AMS) and NCR Corporation (NCR).

Historically an IT hardware distributor, SNX began scaling a Business Process Outsourcing (BPO) division in 2014 through a series of acquisitions. Both business segments have attractive organic growth prospects, strong management and good reputations with customers. In January, SNX announced it would spin off the BPO business in the second half of the year. We believe the spin-off will create significant value for shareholders. While IT hardware distributors have low margins and trade at below market P/E multiples, established BPOs have higher margins and trade at premium P/E multiples. We believe the spin-off will reveal that the sum of the parts is worth more than the whole. We acquired our shares at an average entry price of $126.29, or just over 10x FY2021 consensus earnings per share. SNX shares ended the quarter at $140.06.

AMS designs and manufactures advanced sensor solutions and is a leading supplier of optical sensing solutions for structured light 3D sensing, which is used in smartphones for facial recognition. In an effort to accelerate growth, AMS acquired Osram, which makes LEDs used in cars and other devices. In the midst of funding the acquisition, AMS shares fell sharply over concerns about auto sales. However, we believe this is a strategically sound acquisition, and cost synergy realization, strong smartphone sales and a recovery in Osram's business will drive the company's earnings higher in the coming quarters. We acquired our stake at an average entry price of CHF 16.71 per share, or less than 7x our estimate of 2022 earnings. Shares ended the quarter at CHF 20.93.

NCR sells and services ATMs, self-checkout terminals and other point-of-sale terminals to banks, retailers and restaurants. In 2018, new management embarked on a multi-year strategy to convert its perpetual license software sales to a recurring "software as a service" fee model. Earlier this year, the stock dropped by more than 50% as the pandemic caused many of NCR's customers to defer purchases. However, many of its customers, including mass merchants, grocers, convenience stores, gas stations and quick-service restaurants, have held up well this year. Over the long term, we believe NCR is well-positioned as banks and stores shift activity from human tellers and cashiers to more ATMs and self-checkout options. We expect outsized earnings growth in 2021 due to both pent-up customer demand as well as further progress on management's strategic initiatives. We purchased our shares at $18.89, or around 8x consensus 2021 EPS estimates. The shares ended the quarter at $22.14.

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We did not have any significant portfolio exits.

We had one analyst addition and one analyst departure during the quarter. Chad Gex joined us in August as a research analyst based in London. Chad was previously a Global Equity Analyst at USS Investment Management, the in-house manager of the UK's largest pension scheme. Prior to that, he was a Senior Research Analyst for investment fund manager AllianceBernstein. A Manhattan native, Chad worked early on in his career as a sell-side equity research associate for Sanford C. Bernstein in New York. Welcome, Chad!

Analyst Philipp Endemann left to be a portfolio manager at another fund. We thank him for his contributions – and for introducing us to Chad! This marks the third time in recent years that a departing analyst has passed the baton to a friend.

A few people are working from the office, which has been open since late summer. Most continue to work from home. Our annual Partner Dinner will not be an in-person event this year. We are working on potential alternate arrangements and will share details with you as soon as we have them.

At quarter-end, the largest disclosed long positions in the Partnerships were AerCap Holdings, Atlas Air Worldwide Holdings, Brighthouse Financial, Change Healthcare and

Green Brick Partners. The Partnerships had an average exposure of 138% long and 80% short.

"If you could actually read my mind, you'd know I'm laughing at your gullibility for taking this carnival barker seriously about anything."

– Gertrude the Pig

Best Regards,

Greenlight Capital

Greenlight Capital, Inc.

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